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Texas Energy: The world as we know it has ended -- what to expect

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Valero Energy Corp. operates this refinery in Port Arthur.

By Jordan Blum, Special to the Texas Business Journals

As oil prices have fallen off a cliff, the various parts of the energy universe are impacted in different ways. The following are synopses of how four key sectors are reacting: exploration and production, oilfield services, misdstream, and refineries and petrochemical.

Exploration and production

Houston-based Marathon Oil Corp. said in December that it would cut its capital spending by 20 percent. Then, Marathon came back in February to say that it would slice its capital expenditures by another 20 percent in the face of low crude prices. Marathon (NYSE: MRO) also is eliminating about 400 jobs.

Such is the fate of many of the top exploration-and-production companies that are cutting their spending levels by 40 to 50 percent to survive the oil slump.

Marathon President and CEO Lee Tillman said he had to take “decisive action” to protect the company and position it to become stronger in the long term.

"The way E&P companies have responded is the obvious way — curtailing capital spending," said Pavel Molchanov, senior vice president and energy analyst with Raymond James & Associates Inc. in Houston.

U.S. rig counts have declined by more than 50 percent during the past several months. Molchanov called it a "colossal decline."

The positive is that oilfield services companies are lowering their costs by about 20 percent, so E&P companies will be able to increase their financial efficiencies.

"This is austerity on steroids," Molchanov said of E&P spending cuts. "This kind of austerity cannot last forever."

Oilfield services

No segment of the energy sector has suffered more than oilfield services companies, which essentially represent most of the boots on the ground in the oil patch.

Schlumberger Ltd. (NYSE: SLB), Halliburton Co. (NYSE: HAL), Baker Hughes Inc. (NYSE: BHI) and Weatherford International Ltd. (NYSE: WFT) have combined to cut about 37,000 jobs globally dating back to last year.

"The producers definitely have it better than services," said Pearce Hammond, managing director in the Houston office of Simmons and Company International, noting that producers outsource a lot of their work. "It's the services companies that have been really hit hard in terms of laying people off and giving price concessions."

Indeed, a majority of overall energy job cuts thus far have come from the services sector.

For instance, Houston-based Frank's International NV (NYSE: FI) is cutting up to 600 oilfield services jobs, with President and CEO Gary Luquette citing the "sudden and dramatic drop in energy prices and rig count."

Midstream

The pipeline and storage companies may not love the oil slump, but they also are not suffering as much as the E&P and services companies.

Many are cutting their budgets, but midstream companies have long-term contracts to transport and store oil and gas, and they essentially operate as the "toll roads" of the energy sector, as Kinder Morgan Inc. Chairman and CEO Rich Kinder likes to say. So their profits are more stable than upstream companies.

While the oil business may suffer some, midstream companies are expected to see growth in natural gas and, eventually, liquefied natural gas as LNG export projects move forward. Kinder cited progress “despite some headwinds due primarily to a rough commodity pricing environment.”

“We are seeing a dramatic interest in natural gas usage,” Kinder said. “This demand will continue to drive more growth, and we’re certainly seeing those opportunities.”

He noted that Kinder Morgan likely will be “active in the coming months” when it comes to mergers and acquisitions.

Refineries and petrochemical

While the energy sector remains depressed during the oil crash, the companies that are celebrating are the refiners and chemical companies.

They are benefiting from the cheap oil and gas feedstocks that make it easier to refine or manufacture their products. As such, a manufacturing boom across the Gulf Coast is ongoing.

“Refining is really the one industry that has been, in a sense, benefiting,” Molchanov said.

U.S. refiners also are benefiting from the price gap between cheaper West Texas Intermediate oil that they often use versus the more expensive global Brent used by refiners outside of North America, he said.

Phil McDivitt, a new president of Houston-based Ascend Performance Materials LLC, said specialty chemical companies like his are thriving with cheap feedstock.

“The opportunities for doing chemicals and plastics in the U.S. have probably never been better,” he said.